

APPENDIX E

NOTICE OF SALE

\$1,000,000,000* STATE OF CALIFORNIA GENERAL OBLIGATION BONDS

Bids will be received by Matt Fong, Treasurer of the State of California (the "State Treasurer") for the purchase of \$1,000,000,000* principal amount of general obligation bonds of the State of California (the "State"), designated "State of California General Obligation Bonds" dated October 1, 1997 (the "Bonds") as follows.

TIME: up to **9:00 a.m.**, California time, on **Wednesday, October 8, 1997**.

PLACE: Bids must be hand delivered to the office of the State Treasurer in Sacramento, California at 915 Capitol Mall, Room 110.

ISSUE: \$1,000,000,000* principal amount registered in the name of a nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds may be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof.

DEBT SERVICE PAYMENTS: Principal and interest will be paid by the State Treasurer to DTC. DTC in turn is to remit such principal and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Bonds.

SECURITY: The Bonds are general obligations of the State of California payable out of the General Fund of the State, subject only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. The full faith and credit of the State of California are pledged for the punctual payment of principal and interest.

INTEREST: Bidders must specify the rate or rates of interest on the Bonds, subject to the following limitations. Interest will accrue from October 1, 1997. Interest may not exceed eleven percent (11%) per annum, payable on April 1 and October 1 in each year, commencing April 1, 1998. Bidders may specify any number of separate interest rates and the same interest rate or rates may be repeated as often as desired, but: (1) each interest rate must be a multiple of one-eighth or one-twentieth of one percent (1/8 or 1/20 of 1%); (2) no Bond shall bear more than one rate of interest, (3) all Bonds of the same maturity shall bear the same rate of interest;

* Subject to change by the State Treasurer. Any change in this Notice of Sale will be announced via Munifacts/TM3 News Service and the State Treasurer's Internet site at <http://www.treasurer.ca.gov>. not later than 1:00 p.m., California time, on Tuesday, October 7, 1997.

and (4) the interest rate on any Bond must not result in the Bond being reoffered (through either a public offering or a "NRO" placement) at a price of less than 96.0.

PRINCIPAL: The principal payment schedule is set forth below.

Payment Date (October 1)	Principal Payment	Payment Date (October 1)	Principal Payment
1998	\$36,570,000	2013	\$31,715,000
1999	36,570,000	2014	31,715,000
2000	36,570,000	2015	31,715,000
2001	36,570,000	2016	31,715,000
2002	36,570,000	2017	31,715,000
2003	36,570,000	2018	31,715,000
2004	36,570,000	2019	31,715,000
2005	36,570,000	2020	31,715,000
2006	36,570,000	2021	31,715,000
2007	36,570,000	2022	31,715,000
2008	31,715,000	2023	31,715,000
2009	31,715,000	2024	31,715,000
2010	31,715,000	2025	31,715,000
2011	31,715,000	2026	31,715,000
2012	31,715,000	2027	31,715,000

Each bid must specify whether each of the above principal payments will be a payment at maturity of serial Bonds or a mandatory sinking fund payment for term Bonds, subject to the following limitations. The mandatory sinking fund payments for term Bonds shall be on the payment date or dates immediately preceding the maturity date for the term Bonds, provided that no term Bond maturing on and after October 1, 2008 may have sinking fund payments prior to October 1, 2008. The mandatory sinking fund payment specified for any October 1 must equal the principal payment scheduled for that date.

REDEMPTION: Bonds maturing on or before October 1, 2009 are not subject to optional redemption prior to maturity. Bonds maturing on and after October 1, 2010 are subject to optional redemption prior to their respective stated maturity dates, in whole or in part, in such order of maturity as may be designated by the State Treasurer and by lot within any maturity, on any date on or after October 1, 2007, at the redemption prices stated below, plus accrued interest to the date fixed for redemption.

<u>Redemption Dates</u>	<u>Redemption Price (as percentage of Principal Amount Redeemed)</u>
October 1, 2007 through September 30, 2008	101 %
October 1, 2008 and thereafter	100

In the event the successful bidder specifies in its bid that any Bonds are to be term Bonds with mandatory sinking fund payments, those Bonds will be subject to redemption prior to maturity, in part, by lot, at 100 percent of the principal amount to be redeemed plus accrued interest to the sinking fund payment date fixed for redemption, without premium, from those mandatory sinking fund payments.

LEGAL OPINION: The joint legal opinion of the Attorney General of the State of California, and Orrick, Herrington & Sutcliffe LLP and the Law Offices of Joaquin A. Talleda, Co-Bond Counsel, approving the Bonds and as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and the exemption of interest on the Bonds from State of California personal income taxes, will be furnished to each successful bidder. The form of the opinion is printed in the Preliminary Official Statement. Each successful bidder will also receive a certificate of the Attorney General that there is no litigation pending (with service of process having been completed) affecting the validity of the Bonds.

ADDITIONAL INFORMATION: This Notice of Sale contains certain information for the purpose of describing the bidding process. It is **not** a summary of the Bonds. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision. Copies of the Preliminary Official Statement may be obtained from:

HONORABLE MATT FONG
Treasurer of the State of California
P.O. Box 942809
Sacramento, California 94209-0001
(916) 653-3451

The Preliminary Official Statement is available as public information on the State Treasurer's Internet site at <http://www.treasurer.ca.gov>.

TERMS OF SALE

METHOD OF BIDDING AND FORM OF BID: Any prospective purchaser may submit a bid for all (but not less than all) of the Bonds. Each bid must be in the form attached to this Notice of Sale. All bids must be unconditional.

Each bid, together with the good faith deposit described below under **Good Faith Deposit**, must be in a sealed envelope addressed to "California State Treasurer Matt Fong" and marked "Bid for State of California General Obligation Bonds."

EXPENSES OF SUCCESSFUL BIDDER: CUSIP Service Bureau charges, California Debt & Investment Advisory Commission fees (California Government Code Section 8856), DTC charges and all other expenses of the successful bidder will be the responsibility of the successful bidder.

GOOD FAITH DEPOSIT: A cashier's check, in immediately available funds, drawn on a bank having a demand account relationship with the State Treasurer, in the amount of \$5,000,000 (which is one-half of one percent (0.5%) of the principal amount of the Bonds), payable to the order of the Treasurer of the State of California, must accompany each bid as a guaranty that the bidder, if successful, will accept and pay for the Bonds in accordance with the terms of the bid and this Notice of Sale.

The deposit of the successful bidder will, immediately upon the acceptance of the bid, become the property of the State of California, and will be credited to the purchase price of the Bonds at the time of delivery of the Bonds. If the purchase price is not paid in full when due, the defaulting bidder shall have no right to the Bonds and its deposit shall be retained by the State Treasurer as and for full liquidated damages for such default and shall constitute a full release and discharge of all claims and rights of the State of California against such defaulting bidder and a waiver of any right the State of California may have to additional damages for any such default. By submitting a bid each bidder waives any right to claim that actual damages resulting from any such default are less than such sum.

If a bid is not accepted, the check accompanying such bid will be returned promptly to the bidder.

No interest will be paid by the State on any bidder's good faith deposit.

BASIS OF AWARD: The Bonds will be awarded to the bidder whose bid will result in the lowest true interest cost ("TIC") to the State. The TIC will be the nominal interest rate which, when compounded semiannually and used to discount the debt service payments on the Bonds to the date of the Bonds, results in an amount equal to the price bid for the Bonds (excluding accrued interest). For the purpose of calculating the TIC, mandatory sinking fund payments will be treated as serial maturities. In the event that two or more bidders offer bids at the same lowest TIC, the State Treasurer will determine by lot which bidder will be awarded the Bonds. The purchaser must pay accrued interest, computed on a 360-day year basis, from the date of the Bonds to the date of delivery of the Bonds.

BOND INSURANCE: If the successful bidder arranges municipal bond insurance for any Bonds, it does so at its own risk and expense and the successful bidder's obligation to pay for the Bonds may not be conditioned upon the issuance of a municipal bond insurance policy. The State will not enter into any additional agreements with the bond insurer. Co-Bond Counsel will charge the successful bidder a fee of up to \$3,000 for providing legal opinions addressed to the bond insurer.

RIGHT OF REJECTION: The State Treasurer reserves the right, in his discretion, to reject any and all bids and to waive any irregularity or informality in any bid or bid delivery envelope.

AWARD: The State Treasurer will award Bonds (or reject all bids) not later than 24 hours after the expiration of the time prescribed for the receipt of the bids, unless such time is waived by the successful bidder. Notice of award will be given promptly to the successful bidder.

DELIVERY AND PAYMENT: The Bonds will be made available to the successful bidder for inspection and packaging at the office of the State Treasurer in Sacramento at least two business days prior to the date fixed for delivery of and payment for the Bonds (the "Closing Date"). The successful bidder will be required to take custody of the Bonds from the State Treasurer and take responsibility, at such bidder's cost and risk, for delivery of the Bonds to DTC in a timely manner so that DTC is prepared to settle the issuance of the Bonds at the commencement of business on the Closing Date.

Payment for the Bonds must be made at the State Treasurer's office in Sacramento by cashier's check drawn on a bank having a demand account relationship with the State Treasurer, payable in immediately available funds, to the order of "Treasurer of the State of California" or by immediately available federal funds or such other means as may be acceptable to the Treasurer. Any expense of providing immediately available funds shall be borne by the bidder. It is expected that the Bonds will be delivered on October 23, 1997. The successful bidder shall have the right, at its option, to cancel its obligation to purchase the Bonds if the State Treasurer fails to tender the Bonds within 60 days from the sale thereof, and in the event of such cancellation, the bidder shall be entitled to the return (without interest) of the good faith deposit for its bid.

CERTIFICATE CONCERNING REOFFERING PRICES: Prior to the delivery of the Bonds, the successful bidder must submit to the State Treasurer a certificate, in form and substance satisfactory to Orrick, Herrington & Sutcliffe LLP, specifying the expected bona fide reoffering price to the general public of the Bonds, as of the date of award of the Bonds, or that the Bonds have been offered to the public and that at least 10 percent of such bidder's Bonds were sold to the general public at the price indicated, and identifying the amounts and prices at which any Bonds were actually sold other than as part of a public offering. For purposes of this paragraph, sales of Bonds to other securities brokers or dealers will not be counted as sales to the general public. In making such representations, the initial purchasers must reflect the effect on the offering price of any "derivative products" used in connection with the initial sale of any of the Bonds.

PARTICIPATION GOALS: Firms owned by minorities, women and disabled veterans are encouraged to respond to this invitation for bids. The State Treasurer has adopted regulations and participation goals for professional bond services firms owned by minorities, women and disabled veterans. These participation goals are set forth in Title 2 of the California Code of Regulations in Section 1899.522. All bidders must certify awareness of these regulations and goals and that a good faith effort was made to comply with the Treasurer's DVBE participation goals. Successful bidders will be required to submit reports to the State Treasurer concerning TBE outreach efforts and professional bond service participation in transactions related to the offer and sale of the Bonds that are the subject of this notice of sale. The State Treasurer's annual goals for minority, women and disabled veteran business enterprises' participation in competitive contracts for professional bond services are 15 percent, 5 percent and 3 percent, respectively.

OFFICIAL STATEMENT: The State Treasurer has prepared a Preliminary Official Statement relating to the Bonds which the State deems, for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), to be final as of its date, except for information permitted by that Rule to be omitted from the Preliminary Official Statement, but the Preliminary Official Statement shall be subject to amendment or modification as deemed necessary by the State Treasurer. The State Treasurer undertakes to provide a final Official Statement which will be complete in all material respects up to the date of delivery of the Bonds. The State shall deliver, at closing, a certificate executed by the State Treasurer to the effect that, to the best of the State Treasurer's knowledge and belief, as of the date of delivery, the information contained in the final Official Statement, and any supplement to the final Official Statement relating to the State and the Bonds, is true and correct in all material respects, and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

The State undertakes that for a period up to the earlier of (a) 25 days following the "end of the underwriting period" (as defined in Rule 15c2-12) or (b) 90 days after the date of delivery of the Bonds, it will (i) apprise the successful bidder of all material developments, if any, occurring with respect to the State after delivery of the Bonds to the successful bidder, and (ii) if the State decides to do so, or if it is requested by the successful bidder to do so, prepare a supplement to the final Official Statement in respect of any material event. The State will presume that the end of the underwriting period will occur on the date of delivery of the Bonds unless notified otherwise in writing by the successful bidder on or prior to the date of delivery.

By making a bid for the Bonds, the successful bidder agrees (1) to provide to the State Treasurer, in writing, within 4 hours of the acceptance of bids, pricing and other related information necessary for completion of the final Official Statement, (2) to disseminate to all members of its underwriting syndicate copies of the Official Statement, including any supplements prepared by the State, (3) to promptly file a copy of the final Official Statement, including any supplements prepared by the State, with each Nationally Recognized Municipal Securities Information Repository and (4) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to ultimate purchasers.

Within seven business days after the date of award of the Bonds, 1,000 copies of the final Official Statement will be supplied to the successful bidder at the expense of the State.

CONTINUING DISCLOSURE: In order to assist bidders in complying with Rule 15c2-12(b)(5), the State Treasurer, on behalf of the State, will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Official Statement. The State Treasurer, on behalf of the State, will deliver the Disclosure Certificate at the closing of the sale of the Bonds. The State has never failed to materially comply with any continuing disclosure obligations relating to any debt for which the State was an "obligated person" within the meaning of Rule 15c2-12(b)(5).

MATT FONG

Treasurer of the State of California

Dated: September 24, 1997

Sacramento, California

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BID FORM

**BID FOR THE PURCHASE OF
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS
SALE DATE: OCTOBER 8, 1997**

The Honorable Matt Fong
Treasurer of the State of California

Dear Treasurer Fong:

Pursuant to the Notice of Sale dated September 24, 1997 (the "Notice of Sale"), we offer to purchase all, but not less than all, of the State of California General Obligation Bonds offered by you (the "Bonds") in the principal amount of \$1,000,000,000 for a purchase price equal to 100 percent of that principal amount plus a premium of \$ _____ plus accrued interest from October 1, 1997 to the date of delivery.

On Annex A we specify whether each of the principal payments listed on Annex A will be a payment at maturity of serial Bonds or a mandatory sinking fund payment for term Bonds. We also specify the rate or rates of interest on the Bonds. We certify that no bond will be reoffered (through either a public offering or a "NRO" placement) at a price of less than 96.0.

This bid is made subject to all terms and conditions of the Notice of Sale, which is incorporated by reference as though fully set forth herein.

We are enclosing our good faith deposit in the form of a cashier's check. See **Good Faith Deposit** in the Notice of Sale.

"TBE Participation and DVBE Good Faith Efforts. We hereby certify to all of the following on behalf of the undersigned and our syndicate or selling group:

(1) Bidder is aware of the State Treasurer's regulations and participation goals for target business enterprises offering professional bond services.

(2) Bidder is aware that existing law requires the bidder to demonstrate a good faith effort (as defined in Section 1899.501 of Title 2 of the California Code of Regulations) toward the Treasurer's participation goals for disabled veteran-owned firms.

(3) Bidder is aware and acknowledges that if the Treasurer concludes that the bidder has not demonstrated a good faith effort, the Treasurer is authorized under existing laws to award the contract to the next lowest responsive and responsible bidder."

name of bidder
by: _____
telephone # _____

A list of the members of our syndicate will be provided by the Closing Date.
(optional) Our estimate of the True Interest Cost of our bid is _____ %.

ANNEX A TO BID FORM

STATE OF CALIFORNIA GENERAL OBLIGATION BONDS SALE DATE: OCTOBER 8, 1997

The Principal Payment is a:					
<u>Principal Payment Date (October 1)</u>	<u>Amount of Principal Payment to be made (from Notice of Sale)</u>	<u>Bidder write in Revised Principal Payment (if changed by State Treasurer)</u>	<u>Serial Bond Maturity*</u>	<u>or</u>	<u>Term Bond Sinking Fund Payment*</u>
					<u>Interest Rate**</u>
1998	\$ 36,570,000	\$ _____	_____		_____ %
1999	36,570,000	\$ _____	_____		_____ %
2000	36,570,000	\$ _____	_____		_____ %
2001	36,570,000	\$ _____	_____		_____ %
2002	36,570,000	\$ _____	_____		_____ %
2003	36,570,000	\$ _____	_____		_____ %
2004	36,570,000	\$ _____	_____		_____ %
2005	36,570,000	\$ _____	_____		_____ %
2006	36,570,000	\$ _____	_____		_____ %
2007	36,570,000	\$ _____	_____		_____ %
2008	31,715,000	\$ _____	_____		_____ %
2009	31,715,000	\$ _____	_____		_____ %
2010	31,715,000	\$ _____	_____		_____ %
2011	31,715,000	\$ _____	_____		_____ %
2012	31,715,000	\$ _____	_____		_____ %
2013	31,715,000	\$ _____	_____		_____ %
2014	31,715,000	\$ _____	_____		_____ %
2015	31,715,000	\$ _____	_____		_____ %
2016	31,715,000	\$ _____	_____		_____ %
2017	31,715,000	\$ _____	_____		_____ %
2018	31,715,000	\$ _____	_____		_____ %
2019	31,715,000	\$ _____	_____		_____ %
2020	31,715,000	\$ _____	_____		_____ %
2021	31,715,000	\$ _____	_____		_____ %
2022	31,715,000	\$ _____	_____		_____ %
2023	31,715,000	\$ _____	_____		_____ %
2024	31,715,000	\$ _____	_____		_____ %
2025	31,715,000	\$ _____	_____		_____ %
2026	31,715,000	\$ _____	_____		_____ %
2027	31,715,000	\$ _____	_____		_____ %

* See Principal in the Notice of Sale for restrictions. The bidder must specify by checking one of the columns whether the principal payment will be a payment at maturity of serial Bonds or a mandatory sinking fund payment on term Bonds. The bidder must circle each check that marks a term Bond maturity date (or otherwise indicate the stated maturity date of each term Bond).

** See Interest in the Notice of Sale for restrictions.